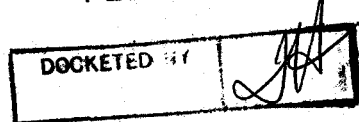


~~Arizona Corporation Commission~~
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Comments of the Management of the Salt River Project
to the
Arizona Corporation Commission on Stranded Costs

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Mr. Rudibaugh, and Commissioner(s), my name is Mark Bonsall, and I am an Associate General Manager of the Salt River Project. I am in charge of the Marketing, Customer Service, Finance, and Planning functions at SRP. SRP very much appreciates the opportunity to provide views on the topic of "stranded costs" in this proceeding. Our Board of Directors will be undertaking a public process to consider similar matters in the near future as part of its statutory rate-making process, though as that process has yet to convene, the views I offer here today are those of the management of SRP, not the Board.

In reviewing the RUCO matrix which summarized all the various positions of many parties on stranded cost, it is obvious there are lots of differing and strongly held views on this issue. I will not belabor the details of the positions set forth for SRP on the RUCO matrix; they are accurate as they appear. Rather, I will discuss what we were attempting to accomplish with the total construct of those positions. I must, however, at least mention that we support the revenue lost approach to calculating stranded cost.

While we believe that stranded cost recovery is in order because of historical and existing obligations to serve and rate regulatory methods, we also believe that the responsibility for stranded cost should not reside exclusively with the customer. Some form of apportionment between incumbent utilities and their customers is appropriate. The incumbent utility assumes its portion through cost mitigation, or simply a decline in its financial results. The customers assume their portion through a stranded cost recovery mechanism of some sort. In order to create this apportionment, there should be a date certain by which stranded cost recovery goes away. The positions of SRP management as reflected on the RUCO matrix have been intended to accomplish just these purposes, and we remain committed to them. It should be evident, thus, that we believe certain stranded costs will continue to exist well beyond the 5-7 year recovery period we support. It would thus be the incumbent utilities' responsibility exclusively to mitigate such post-recovery period costs.

As to the overall computation of stranded costs, applicable generation related costs--be they bricks and mortar, regulatory assets, administrative and financial costs, fuel contracts, or purchase power obligations--are well known, and should all be included in the computations. The single dominant least known variable in the computation of stranded cost is the projected market price of energy. Stranded cost is not a one year phenomenon. In the absence of a multi-year market price projection, it is impossible to judge just how the apportionment of responsibility for stranded costs settles, where the

responsibility of the customer ends, and that of the incumbent utility begins. We suggest that a small working group of experts convene for the sole purpose of providing the Commission, quickly, either different approaches to model market price, or perhaps a projected range of market prices. Without this, we do not see how the respective responsibilities for stranded costs can be drawn or understood.

Even with a well articulated and founded market price projection, stranded cost recovery is not deterministic. Actual prices will, of course, differ. It is for this reason that we believe the implementation of both rate caps and a true-up mechanism would be sound policy. This substantially reduces both the prospect of extraordinary gain and the risk of extraordinary loss for both the consumer and the incumbent utility during the stranded cost recovery period.

I would like to restate SRP's support of the transition to customer choice of electricity provider, and our desire to coordinate efforts in this regard with the Commission. I thank you for the opportunity to provide these comments on stranded costs.